

Private Debt Investors Target Higher-Risk Strategies

Distressed debt becomes the most preferred strategy among investors in Q1 2018

The proportion of investors with a preference for higher-risk strategies such as special situations and distressed debt vehicles has increased from Q1 2017 to Q1 2018, with the largest share (52%) of investors now showing a preference for distressed debt. This shift comes at a time in which a rising proportion of private debt investors feel that a market correction is imminent, and when half of investors believe equity markets are hitting the peak of the cycle. Nonetheless, there are now more than 3,200 investors active in the private debt universe as of the end of Q1, an increase of 100 from the end of 2017. Appetite for investments in Europe have particularly seen an uptick over the past 12 months: 60% of private debt investors are seeking opportunities in the region in Q1 2018 compared to 41% in Q1 2017.

For more information and analysis, see the full *Preqin Quarterly Private Debt Update: Q1 2018* here: <http://docs.preqin.com/quarterly/pd/Preqin-Quarterly-Private-Debt-Update-Q1-2018.pdf>

Key Private Debt Investor Facts:

- There are more than 3,200 investors active in private debt. **The 10 largest investors have a total allocation of \$71bn to the asset class**, almost 30% of aggregate capital allocated to private debt.
- **Distressed debt is the most-preferred strategy among investors in Q1 2018**, with 52% targeting the fund type. This is an increase from 46% in Q1 2017.
- The proportion of investors targeting **special situations funds saw the greatest increase over the past year**, rising from 27% of investors in Q1 2017 to 37% in Q1 2018.
- Mezzanine vehicles, which were sought after by 51% of investors in Q1 2017, have seen that proportion fall to 46% of investors in Q1 2018.
- This shift to higher-risk strategies could reflect where investors feel we are in the market cycle: 45% of private debt investors feel that asset pricing is too high and a correction is due, while 45% of hedge fund investors believe equity markets may have reached a peak.
- There has been an increase in proportions of investors targeting the major regions of North America, Europe and Asia-Pacific and **appetite for Europe has grown the most**, from 41% in Q1 2017 to 60% in Q1 2018.

Tom Carr, Head of Private Debt Products:

“We are seeing an increasing number of investors turn to private debt, driven in part by the great success the asset class has seen in recent years. While the total number of active investors has grown by over 100 in just the past quarter, the universe remains dominated by a small group of the most influential institutions: the 10 largest investors alone account for close to 30% of aggregate capital flowing into the asset class.

As the *Preqin H1 2018 Investor Outlook* noted, investors across different asset classes increasingly feel that public markets are at or close to a peak, and may be due for a correction. In this context, the appeal of higher-risk strategies like distressed debt and special situations is growing: a potential market correction would provide increased opportunities for these fund types to capitalise on. This may be why we have seen distressed debt overtake direct lending as the most sought-after strategy, while appetite for special situations funds has grown further than for any other fund type.”

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